

Message Text

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SUBJECT: DRAFT REPORT OF EPC'S WP-4 MEETING DECEMBER 8-9

REF: OECD PARIS 737

WE HAVE FOUND DRAFT REPORT (REFTEL) A GOOD SUMMARY OF THE
ISSUES ON INFLATION DISCUSSED AT SUBJECT MEETING. SUGGES-
TIONS ON SPECIFIC POINTS ARE AS FOLLOWS:

1. END OF PARA 2 MENTIONS "IMPORTANT DIFFERENCES" IN
WEIGHTS DELEGATES ATTRIBUTED TO MONETARY FACTORS IN THE
RECENT INFLATIONARY EXPERIENCE. WE WERE NOT STRUCK AT
THE MEETING BY DIFFERENCES. ON THE CONTRARY, WE WERE
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IMPRESSED BY THE DEGREE OF AGREEMENT ON MONETARY VERSUS

OTHER INFLUENCES. THIS PARA MIGHT BE CHANGED TO INDICATE THIS AGREEMENT RATHER THAN DIFFERENCES.

2. PARA 6. WE DO NOT RECALL MUCH DISCUSSION ABOUT UNREALISTIC CAPACITY UTILIZATION GOALS IN RELATION TO SIMULTANEOUS RISE IN UNEMPLOYMENT LEVELS ASSOCIATED WITH A GIVEN LEVEL OF CAPACITY UTILIZATION. ALTHOUGH WE DO NOT NECESSARILY DISAGREE, THERE IS NO DISCUSSION IN THE PAPER AS TO WHY THIS CAME ABOUT OR WHAT TIME PERIOD THIS REFERS TO.

3. ALSO IN PARA 6 THE "COLLECTIVE ERROR" MIGHT SPECIFY THAT THIS HAPPENED AT THE SAME TIME, NOT JUST COLLECTIVELY. ALSO, THE EMERGENCE OF BOTTLENECKS CONTRIBUTING TO INFLATION WAS NOT NECESSARILY THE RESULT OF ACTIVITY WITHIN THE DOMESTIC ECONOMIES OF MEMBERS, BUT WAS RELATED TO BOTTLENECKS IN EXTERNAL COMMODITY MARKETS.

4. ALSO IN PARA 6, NO NECESSARY CASUALITY SHOULD BE IMPLIED BETWEEN THE US BALANCE OF PAYMENTS DEFICITS AND THE DEFENSE OF FIXED EXCHANGE RATES BY OTHER COUNTRIES, ALTHOUGH IT IS TRUE THAT THE US DEFICIT DID FREE SOME COUNTRIES FROM CONSTRAINTS WITH REGARD TO DOMESTIC POLICIES THEY MIGHT OTHERWISE HAVE HAD ARISING FROM THEIR EXTERNAL POSITION.

5. PARA 8. THERE WAS MUCH DISCUSSION AT THE MEETING ON THE MECHANISMS FOR TRANSMISSION OF INFLATION, BUT WE DO NOT BELIEVE THE DISCUSSION WAS DIVIDED INTO TWO SUCH NEAT CATEGORIES.

PARA 10. COST PUSH DISCUSSION MIGHT INCLUDE MENTION OF EXTERNAL FACTORS SUCH AS OIL PRICE RISE AND RANDOM FACTORS SUCH AS POOR HARVESTS.

PARA 18. THIS WOULD BE TRUE ONLY IF LARGER COUNTRIES ANNOUNCED NORMS OR IN SOME WAY MADE THEM KNOWN TO SMALLER COUNTRIES. PARA 25 SEEMS REDUNDANT, REPEATING MANY OF THE SAME POINTS MADE IN PARA 18.

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PARA 21. DISCUSSION OF ROLE OF NORMS DID NOT SEEM TO US CONTROVERSIAL. THIS PARA MIGHT SPELL OUT MORE ABOUT WHAT IS MEANT, BUT AT THIS POINT MIGHT BETTER BE DROPPED.

PARA 22. TYPO. ASSUME CASE IN POINT VICE "A POINT IN CASE". KISSINGER

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